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SUBJECT: LULA REACHES HALFWAY POINT WITH RISING APPROVAL RATINGS

REF: A. BRASILIA 3031

[B](#). BRASILIA 2447

[C](#). BRASILIA 1048

[1](#)1. (SBU) SUMMARY. After a two-year roller coaster ride, Brazilian President Lula da Silva has reached the halfway point of his term with his approval rating back up to 63%. His first year was marked by high approval numbers and unrealistic expectations, both by his administration and the public at large. The second year opened with a dose of reality including economic pessimism, a scandal, and growing public impatience with the GoB's inability to deliver on its social agenda. But as the economy has strengthened, Lula is regaining traction and early projections show him ahead of his likely challengers in the 2006 presidential race. Lula's largest headache now is maintaining the governing coalition so that his administration can pass key bills and reforms through congress, and specifically to achieve greater results on the social agenda. END SUMMARY.

LULA'S APPROVAL UP TO 63%

[1](#)2. (SBU) According to a just-released November 29 IBOPE survey, President Lula's approval numbers continue to tick upward after bottoming out in midyear. Lula's personal approval rating now stands at 63%. (By contrast, Lula was elected with 61% of the votes in October 2002, his approval briefly topped 80% in early 2003, and then fell to a nadir of 54% in June 2004.) The approval ratings for Lula's government are also improving, though they have always run lower than his personal numbers. The government approval rating now stands at 41%, up from 29% in June. The improvement is seen as primarily linked to Brazil's strengthening economy. To the extent that Lula's problems in early 2004 were caused by a series of black eyes --from the "Waldomiro Scandal" to a brutal fight in Congress over the minimum wage to the "Red April" of land occupations by the Landless Movement (MST)-- Lula has benefited both from the fact that the worst of the bad news seems to have run its course, and from the fact that the municipal elections in October kept Congress out of session for months, leaving him free to legislate by decree and keeping opposition party leaders too distracted to attack him in floor speeches.

LULA LEADS PROJECTIONS FOR 2006 RACE

[1](#)3. (SBU) The same IBOPE survey shows that Lula has a strong lead in early projections for the 2006 presidential race. If the election were held today, Lula would beat newly-elected Sao Paulo mayor Jose Serra (PSDB) by 42-33%. During this year's mayoral campaign, Serra pledged to complete his term through 2008, but his 33% showing in this poll is ten points better than he did in the first round of the 2002 presidential race. According to the IBOPE poll, Lula would easily beat the other two PSDB stars: Sao Paulo Governor Geraldo Alckmin (47-15%) and Minas Gerais Governor Aécio Neves (49-9%). PMDB gadfly Anthony Garotinho polls between 8% and 16% in the various projections --about how he fared in the 2002 race.

ECONOMY MAY AFFORD HEALTHY MINIMUM WAGE HIKE

[1](#)4. (SBU) Lula's popularity has recovered mostly on the strength of an improving economy, as GDP growth and employment have showed significant strength in recent months. 2004 GDP growth will likely be about 5% (ref B). One way the president may be looking to consolidate both economic optimism and greater popularity is by deciding sooner rather than later on the size of the annual increase in the minimum wage. Lula reportedly hopes this week to approve a hike from the current 260 to possibly as much as 300 reals per month. (Comment: While still a long way from Lula's unrealistic campaign promise to double the real minimum wage during his first term, the increase would be a significant 8% above inflation.) Proposing a healthy increase before Congress comes back in mid-February could avert a repeat of last April's political blood-letting when the opposition and many in Lula's own Workers' Party (PT) bitterly opposed his minimum wage adjustment proposal, which was only 1.2% above inflation (ref C). Strong 2004 fiscal results make a bigger adjustment possible.

PMDB AND PPS PULL OUT OF COALITION

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15. (SBU) In the past three days, two parties have pulled out of Lula's coalition --the large PMDB and the medium-sized PPS-- to better position themselves in opposition to Lula's PT in advance of the 2006 elections (ref A). Either or both of these parties may fracture in the coming weeks, meaning that it is too soon to assess how many Congressional votes Lula will lose by their defections. But the early math suggests the administration should be able to cobble together narrow majorities on most, but perhaps not all, votes. The two parties hold three cabinet posts (Communications, Social Security, and National Integration), and by January or February, Lula will have to decide whether to swap out those three ministers and whether that becomes part of a larger cabinet shuffle.

CONGRESS TO PASS BUDGET AND GO INTO RECESS  
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16. (SBU) Congress had a subpar year, failing to pass or make much progress on most key bills and reforms on its agenda. Congress spent the first half of the year in bitter partisan fights over how to handle the "Waldomiro Scandal" and the minimum wage. In July, legislators returned to their states to stump for their parties' candidates in the October municipal elections. And after the elections, the PMDB --caught up in its internal disputes-- blocked committee and floor votes for weeks. By year's end, the Joint Budget Committee will have passed its mandatory budget, while key sections of the Judicial Reform passed in early December. But left undone and on next year's agenda are: labor reforms, final pieces of the 2003 tax and pension reforms, Public-Private Partnerships (to fund infrastructure projects), the Biosafety Law (to regulate biotechnology), and the Bankruptcy Law.

COMMENT - "THIS COUNTRY NEEDS DEVELOPMENT"  
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17. (SBU) Last week, Lula held the final full cabinet meeting of the year, a strategy session to close the book on the first half of his term and look forward to the next two years. He set the tone in his opening remarks: "After decades of stagnation, this country needs development". When Congress returns in February, it will choose new leadership in both the Senate and Chamber and in all the committees. These changes will be closely watched for clues to evolving dynamics in the administration and congress and to see if the new cabinet lineup and congressional leaders are able to improve the administration's efficiency and its congressional floor tactics, which ranged from fair to poor over the past two years. Beyond the hike in the minimum wage, Lula is clearly animated to turn greater attention to the social agenda --everything from road and port improvements to strengthening the Zero Hunger program-- and economic growth may give him a bit more maneuvering room to do so. He told the cabinet meeting that "We have two years to go. It's time to reap what we sowed (i.e., after two years of fiscal austerity). Today, everything starts to change."  
DANILOVICH